

Workforce Dropouts

Minnesotans increasingly are choosing not to participate in the state's workforce. The question is why and how can we get some of them back?

As the economic expansion approaches seven years and our unemployment rate hovers in the mid-3 percent range, tightening labor market conditions and worker shortages are challenging businesses that want to hire.

The increasing number of people who have left the workforce in recent years has only exacerbated these challenges. While the state surpassed 3 million available workers for the first time in early 2015, Minnesota has seen even faster growth in the number of working-age people who are not participating in our state's workforce.

In light of an expected dramatic decline in our labor force growth rate over the next 15 years, can we expect this growing pool of nonparticipants to re-enter the workforce given the right circumstances? What is keeping them away? Are they turned off by a lack of attractive job opportunities? Or are they the leading edge of an irreversible wave of aging baby boomers heading into permanent retirement? And what role does the changing racial and ethnic makeup of our population play?

This article looks at the characteristics of our growing number of nonparticipants in order to better judge whether they offer a partial solution to our labor shortage or are long gone, never to return.

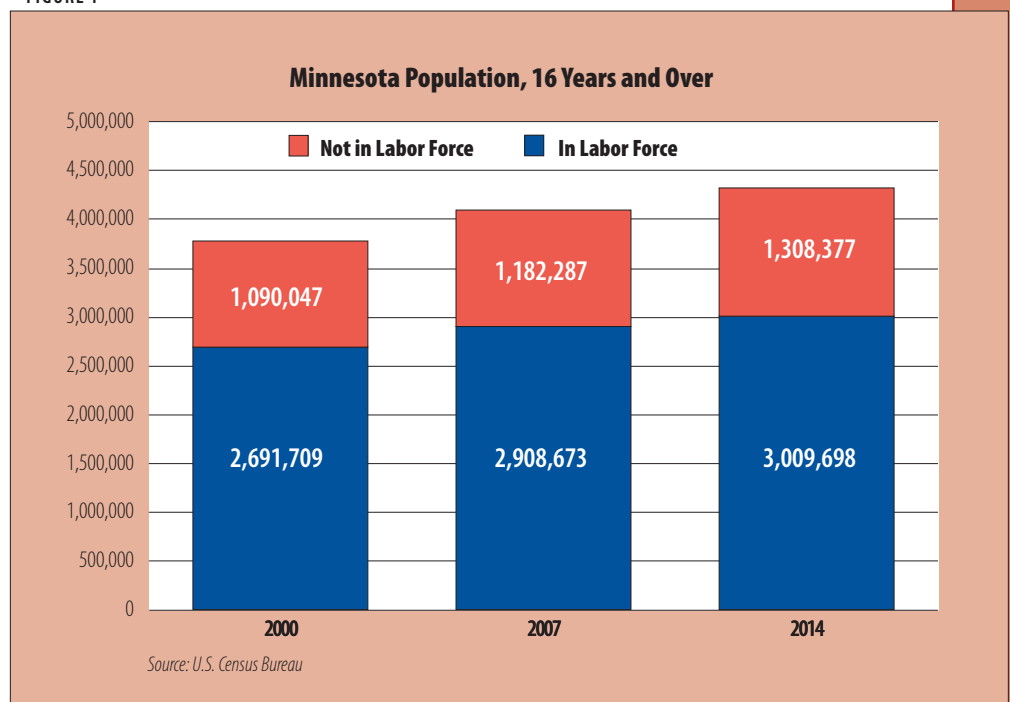
Our Rapidly Aging Population

American Community Survey (ACS) data show that Minnesota gained just over 109,000 new workers – a 3.8 percent increase

– from 2007 to 2014. But the number of people who are 16 and over who were not in the labor force expanded nearly three times faster at 10.7 percent during that period, growing by 126,000 people (see Figure 1). Correspondingly, Minnesota's labor force participation rate decreased from 71.1 percent in 2007 to 69.7 percent in 2014.

Perhaps not surprisingly, a significant share of Minnesotans not in the labor force are 65

FIGURE 1



years old or over. In 2014, about 639,000 people (48.8 percent of all nonparticipants) were in this oldest age group (see Table 1), up from 535,000 (45.4 percent of the total) in 2007.

So of the overall increase in this number since 2007, 79.5 percent was among the older age cohort. The impact that the aging population had on our overall nonparticipation would have been even greater had the participation rate for people ages 65 and over not increased from 15.7 percent to 17.8 percent over that time period, a change that kept about 16,000 additional older workers on the job.

Most of the remaining increase in nonparticipants over the last decade was in the 55- to 64-year-old cohort. The number of these baby boomers not in the labor force increased by 42,000 to about 213,000 people in 2014, even as their participation rate remained steady at 70.1 percent. It is obvious, then, that a very significant share of the increase in the number of nonparticipants since 2007 has been a direct result of our aging demographic. And we have only just begun to see its overall impact.

The 500,000 55- to 64-year-old baby boomers who remain in the labor force as of 2014 will

all have turned 65 by 2024, with an additional 348,000 current labor market participants turning 65 between 2024 and 2029. In other words, about 28 percent of our current workforce – nearly one in every three workers – will turn 65 in the next 15 years. The recent trends described above suggest that our pool of nonparticipants has only just begun to expand.

Race Profile

While aging explains much if not all of the recent (and future) increase, it remains the case that slightly more than half our current nonparticipants are not yet 65. And of these younger nonparticipants, 40 percent are in the so-called prime working years of 25 to 54. What are the characteristics of these 670,000 people between 16 and 64 that might explain their status?

In recent years, Minnesota's population and workforce have become more racially diverse, a trend that is certain to continue. Between 2007 and 2014, Minnesota's white population between the ages of 16 and 64 shrank by over 40,000 people. The white workforce in that age bracket fell by 49,000 people as their nonparticipation rate increased from 17.4 to 17.9 percent.

**Labor Force Characteristics of Minnesota's Population
Age 16 Years and Over, 2014**

TABLE 1

Demographic Category	Population	Number Not in Labor Force	Non-participation Rate	Share of Non-participants
Total	4,326,029	1,308,266	30.2%	
Male	2,130,274	557,732	26.2%	42.6%
Female	2,195,755	750,534	34.2%	57.4%
16-24 years	643,185	188,840	29.4%	14.4%
25-34 years	765,193	90,568	11.8%	6.9%
35-44 years	661,276	73,347	11.1%	5.6%
45-54 years	765,664	103,391	13.5%	7.9%
55-64 years	713,631	213,388	29.9%	16.3%
65 years & over	777,080	638,732	82.2%	48.8%
65-74 years	432,638	315,577	72.9%	24.1%
75-84 years	234,942	215,044	91.5%	16.4%
85 years & over	109,500	108,111	98.7%	8.3%

Source: American Community Survey 2014 1-Year Estimates

At the same time, our working-age minority population grew by 133,000 people, and our minority workforce expanded by 115,000 workers, driving their nonparticipation from 27.9 to 24.3 percent. As a consequence of these changes, the number of working-age whites who are not in the workforce increased by 9,000 since 2007, while the number of minorities not in the labor force grew by 18,000.

Most notably within the minority population, the black rate of nonparticipation fell from 29 percent in 2007 to 24.7 percent in 2014. Asians other than Chinese and Japanese – including our Hmong, Asian Indian and Laotian populations, among others – declined from 27.4 to 21 percent nonparticipation. People of “some other race” and Hispanic or Latino origin had the lowest nonparticipation rates for minorities (see Table 2).



TABLE 2 **Minnesota's Working Age Population (16 – 64 years old), 2014**

Demographic Category	Population	Number Not in Labor Force	Non-participation Rate	Share of Non-participants
White	3,012,474	539,069	17.9%	80.5%
Black or African American	206,516	50,913	24.7%	7.6%
American Indian or Alaska Native	38,832	14,016	36.1%	2.1%
Asian or Other Pacific Islanders	177,074	38,737	21.9%	5.8%
Some Other Race	51,866	10,188	19.6%	1.5%
Two or More Races	62,187	16,611	26.7%	2.5%
Hispanic or Latino Origin	172,197	35,073	20.4%	5.2%

Source: American Community Survey 2014 1-Year Estimates

An important feature of some of our minority populations is the high share of them that are recent immigrants. Of the working-age black population, over one-tenth (22,519) are immigrants who arrived here in 2007 or later. The nonparticipation rate for those that have immigrated recently is 22.5 percent, somewhat lower than for the black population overall.

On the other hand, our Asian population includes 25,348 people (14.3 percent of the total) who have arrived since 2007. This group's nonparticipation rate of 34.8 percent is well above the overall Asian rate of 21.9 percent.

So the rapid rate of increase in our working-age minority population is also driving the number of minority nonparticipants, despite a

generally increasing rate of labor force attachment among these populations. Much of this growth in our minority populations is from overseas, where cultural traditions and other variations in circumstances can impact the workforce attachment of these individuals. Overall, recent immigrants appear to be increasing workforce attachment for our minority populations and thus represent a clear offset to our slowing growth in workers.

Educational Attainment

In terms of educational attainment, just over half (50.5 percent) of nonparticipants in Minnesota have a high school diploma or less. The nonparticipation rate for people with less than a high school diploma is 45.7 percent. The rate drops to 20.4 percent for people with a diploma or GED, and to

just 12.6 percent for people with a bachelor's degree (see Table 3).

But that also means that the other half (49.5 percent) of our nonparticipants – some 330,000 people of working age – have at least some college experience, including about 125,000 people (18.7 percent) with a bachelor's degree or higher.

While it is difficult to tease out from the data why so many well-educated people would not be in the workforce, it is interesting that 110,000 Minnesotans with at least some college – or one-third of the people in that category – have not worked at any time during the past five years. And of those with a bachelor's degree or higher, nearly 50,000 (an even higher 40 percent share) have not worked in at least five years (if ever).

TABLE 3 Minnesota's Working Age Population (16-64), 2014

Demographic Category	Population	Number Not in Labor Force	Non-participation Rate	Share of Non-participants
Less Than High School	376,903	172,209	45.7%	25.7%
High School Diploma or Equivalent	813,360	166,066	20.4%	24.8%
1 or 2 Years of College	852,617	159,120	18.7%	23.8%
Associate Degree	390,054	47,238	12.1%	7.1%
Bachelor's Degree	767,166	96,892	12.6%	14.5%
Graduate Degree	348,849	28,009	8.0%	4.2%

Source: American Community Survey 2014 1-Year Estimates

Whatever the underlying factors, it's surprising that as many of our nonparticipants have significant educational backgrounds and that as many of them in turn appear to be permanently detached from the workforce. Given that 87,000 of the 110,000 permanently detached nonparticipants with at least some college (and 35,500 of the 50,000 with a bachelor's or better) are female, raising a family in lieu of paid work may well be an important contributing factor for both women and men in this category (although skewed toward women). From a workforce development perspective, whether this is a voluntary choice or one made of necessity due to child care constraints is an important distinction.

The permanent nature of the detachment from the workforce by many of our nonparticipants is also supported by data from the Current Population Survey (CPS). During 2015, the ratio of those not in the workforce that state they do not want a job was 96.7 percent for those 55 and older (these data don't break out the 65+ population), 84.9 percent for those between 25 and 54 years, and 86 percent for those from 16 to 24 years.

Interestingly, CPS data also show that there were 95,300 Minnesotans (of all ages) who wanted a job but did not actively search for one and so were classified as not in the workforce. Of these, 29,500 state they are currently available to work, so there are nonparticipants out there who could be easily drawn into the workforce. But the vast majority appear to be much less likely to be drawn in easily.

Motivation

In the face of a tightening labor market, declining growth in our workforce, and employers that will be increasingly desperate for new workers, it is important to understand the demographics and motivations of the large and growing pool of people who are not actively participating in our labor force. We have seen that in a very large share of cases, nonparticipation appears to be one of choice – often a choice to retire but also perhaps one to raise a family.

Although there is a trend toward increasing labor force participation among people of retirement age, it may simply be that a good number of individuals don't need to work.

We shouldn't expect that recent trends toward nonparticipation will somehow reverse themselves as economic conditions improve.

Yet there is a share of nonparticipants who might be more easily tapped as worker shortages mount. Our increasing population of new immigrants appears to be highly connected to the workforce. Addressing work barriers for these and other groups could yield great returns.

Our minority populations are rapidly becoming the exclusive source of the growth in our workforce of the future (see "Eliminating Racial Disparities is Crucial to Our Success" in the December 2015 issue of *Trends*). Encouraging the full participation of minority populations will help us meet the challenges ahead. Too many of the workers who are leaving our labor force won't be coming back, meaning employers cannot ignore any who want to work but are facing barriers. **T**